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Homebuilders told housing bottom to be in late 2011

January 27th, 2009, 12:41 pm · 33 Comments · posted by Jeff Collins


Kemp

Forecasters from Beacon Economics told homebuilders last night that the median price of an Orange County house will hit bottom in the third quarter of 2011, dropping to $323,000 in just under three years.

That's a 35.4% drop from the median price of $500,000 for a single-family home in the third quarter of 2008, Brad Kemp, Beacon's director of regional research, told the Orange County Building Industry Association dinner at the Irvine Marriott. It's also a 56% drop from the peak price for a house of $734,000 in June 2007.

Kemp also forecast that Inland Empire prices won't hit bottom until the fourth quarter of 2011. Riverside County house prices will drop another 28% from the third quarter of '08, he said, while San Bernardino prices will fall 31.6%.


Thornberg

Chris Thornberg, a former UCLA economics professor who co-founded Beacon, told homebuilders that while the overall economic outlook is bleak, hysteria about the U.S. marketplace is overblown. At worse, the financial picture is about as bad as the recession of 1982 and other severe recessions.

"2009 is going to be brutal. But it's not that bad," said Thornberg, who began predicting that a housing bubble was due to burst since at least 2003. "It's not a depression. … This is sort of a normal, bad downturn."

Other comments by Thornberg:

- Mortgage meltdown: The collapse of subprime loans was due to reliance on CDO (collateralized debt obligations, a.k.a., mortgage-backed securities). The entire financial market was based on folks making short-run returns. That's got to be fixed.
- Liquidity crisis: It's not a liquidity crisis, it's just that lenders have no appetite for risk these days. "You can get business from the bank. You've just got to put skin in the game. … You can get money. You've just got to reduce their risk. That's the new reality."
- Wealth effect: People stopped saving because they thought they were rich because their stock values and home values had gone so high. They actually never were worth what people thought they were, and assets merely are collapsing "back to normal values," he said. Americans "just woke up from a 14-year frat party with the mother of all Bud Lite hangovers."
- Prop. 13: California isn't a high-tax state. "It's a dumb-tax state." It places high income taxes on the wealthy who make up about 1 % of the tax base. The state instead should levy smaller tax hikes on a bigger tax base and it should eliminate Prop. 13, which is inequitable and limits revenues.

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